

CITY OF LOS ANGELES

Audit Report

FIREFIGHTER'S CANCER PRESUMPTION PROGRAM

Chapter 1568, Statutes of 1982

July 1, 2000, through June 30, 2003



STEVE WESTLY
California State Controller

June 2006



STEVE WESTLY
California State Controller

June 16, 2006

Laura N. Chick, Controller
City of Los Angeles
200 N. Main Street, Suite 300
Los Angeles, CA 90012

Dear Ms. Chick:

The State Controller's Office audited the costs claimed by the City of Los Angeles for the legislatively mandated Firefighter's Cancer Presumption Program (Chapter 1568, Statutes of 1982) for the period of July 1, 2000, through June 30, 2003.

The city claimed \$987,990 for the mandated program. Our audit disclosed that \$803,821 is allowable and \$184,169 is unallowable. The unallowable costs occurred primarily because the city claimed unallowable, unsupported, and duplicated costs. The State paid the city \$309,253. Allowable costs claimed exceed the amount paid by \$494,568.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (COSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at COSM's Web site, at www.csm.ca.gov (Guidebook link); you may obtain IRC forms by telephone, at (916) 323-3562, or by e-mail, at csminfo@csm.ca.gov.

If you have any questions, please contact Jim L. Spano, Chief, Compliance Audits Bureau, at (916) 323-5849.

Sincerely,

Original Signed By:

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/vb

cc: William T. Fujioka
City Administrative Officer
City of Los Angeles
Margaret M. Whelan
General Manager
City of Los Angeles
Lois Pace Bailey
Chief of Workers' Compensation
City of Los Angeles
James Tilton, Program Budget Manager
Corrections and General Government
Department of Finance

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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the City of Los Angeles for the legislatively mandated Firefighter's Cancer Presumption Program (Chapter 1568, Statutes of 1982) for the period of July 1, 2000, through June 30, 2003. The last day of fieldwork was January 23, 2006.

The city claimed \$987,990 for the mandated program. Our audit disclosed that \$803,821 is allowable and \$184,169 is unallowable. The unallowable costs occurred primarily because the city claimed unallowable, unsupported, and duplicated costs. The State paid the city \$309,253. Allowable costs claimed exceed the amount paid by \$494,568.

Background

Chapter 1568, Statutes of 1982, added and amended *Labor Code* Section 3272.1, which states that cancer that has developed or manifested itself in firefighters will be presumed to have arisen out of and in the course of employment, unless the presumption is controverted by other evidence. The presumption is extended to a firefighter following termination of service for a period of three calendar months for each year of requisite service, but not to exceed 60 months in any circumstance, commencing with the last date actually worked in the specified capacity.

On February 23, 1984, the Board of Control, (now the Commission on State Mandates [COSM]) determined that Chapter 1568, Statutes of 1982, imposed a reimbursable mandate under *Government Code* Section 17561.

Parameters and Guidelines establishes the state mandate and defines reimbursement criteria. COSM adopted the *Parameters and Guidelines* on October 24, 1985, and last amended it on March 26, 1987. In compliance with *Government Code* Section 17558, the SCO issues claiming instructions for mandated programs, to assist local agencies in claiming reimbursable costs.

Objective, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Firefighter's Cancer Presumption Program for the period of July 1, 2000, through June 30, 2003.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

We conducted the audit according to *Government Auditing Standards*, issued by the Comptroller General of the United States, and under the authority of *Government Code* Sections 12410, 17558.5, and 17561. We did not audit the city's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that costs claimed were allowable for reimbursement. Accordingly, we examined transactions, on a test basis, to determine whether the costs claimed were supported.

We limited our review of the city's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

Conclusion

Our audit disclosed instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, the City of Los Angeles claimed \$987,990 for costs of the Firefighter's Cancer Presumption Program. Our audit disclosed that \$803,821 is allowable and \$184,169 is unallowable.

For fiscal year (FY) 2000-01, the State paid the city \$209,510. Our audit disclosed that \$202,634 is allowable. The city should return \$6,876 to the State.

For FY 2001-02, the State paid the city \$99,460. Our audit disclosed that \$346,142 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$246,682, contingent upon available appropriations.

For FY 2002-03, the State paid the city \$283. Our audit disclosed that \$255,045 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$254,762, contingent upon available appropriations.

Views of Responsible Official

We issued a draft audit report on April 5, 2006. Margaret M. Whelan, General Manager, responded by letter dated May 1, 2006 (Attachment), agreeing with the audit results in general. This final audit report includes the city's response.

Restricted Use

This report is solely for the information and use of the City of Los Angeles, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original Signed By:

JEFFREY V. BROWNFIELD
Chief, Division of Audits

Schedule 1— Summary of Program Costs July 1, 2000, through June 30, 2003

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2000, through June 30, 2001</u>				
Salaries	\$ 3,740	\$ 3,740	\$ —	
Benefits	3,379	3,379	—	
Disability benefit costs	410,193	398,149	(12,044)	Finding 1
Total direct costs	417,312	405,268	(12,044)	
Indirect costs	1,708	—	(1,708)	Finding 2
Total direct and indirect costs	419,020	405,268	(13,752)	
Reimbursable percentage	× 0.50	× 0.50	× 0.50	
Total program costs	<u>\$ 209,510</u>	202,634	<u>\$ (6,876)</u>	
Less amount paid by the State		(209,510)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (6,876)</u>		
<u>July 1, 2001, through June 30, 2002</u>				
Salaries	\$ 6,669	\$ 6,669	\$ —	
Benefits	6,059	6,059	—	
Disability benefit costs	855,030	679,555	(175,475)	Finding 1
Total direct costs	867,758	692,283	(175,475)	
Indirect costs	5,932	—	(5,932)	Finding 2
Total direct and indirect costs	873,690	692,283	(181,407)	
Reimbursable percentage	× 0.50	× 0.50	× 0.50	
Total program costs	<u>\$ 436,845</u>	346,142	<u>\$ (90,703)</u>	
Less amount paid by the State		(99,460)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 246,682</u>		
<u>July 1, 2002, through June 30, 2003</u>				
Salaries	\$ 9,773	\$ 9,773	\$ —	
Benefits	8,718	8,718	—	
Disability benefit costs	660,723	491,599	(169,124)	Finding 1
Total direct costs	679,214	510,090	(169,124)	
Indirect costs	4,056	—	(4,056)	Finding 2
Total direct and indirect costs	683,270	510,090	(173,180)	
Reimbursable percentage	× 0.50	× 0.50	× 0.50	
Total program costs	<u>\$ 341,635</u>	255,045	<u>\$ (86,590)</u>	
Less amount paid by the State		(283)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 254,762</u>		

Schedule 1 (continued)

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable per Audit</u>	<u>Audit Adjustment</u>	<u>Reference ¹</u>
<u>Summary: July 1, 2000, through June 30, 2003</u>				
Salaries	\$ 20,182	\$ 20,182	\$ —	
Benefits	18,156	18,156	—	
Disability benefit costs	<u>1,925,946</u>	<u>1,569,303</u>	<u>(356,643)</u>	Finding 1
Total direct costs	1,964,284	1,607,641	(356,643)	
Indirect costs	<u>11,696</u>	<u>—</u>	<u>(11,696)</u>	Finding 2
Total direct and indirect costs	1,975,980	1,607,641	(368,339)	
Reimbursable percentage	<u>× 0.50</u>	<u>× 0.50</u>	<u>× 0.50</u>	
Total program costs	<u>\$ 987,990</u>	803,821	<u>\$ (184,169)</u>	
Less amount paid by the State		<u>(309,253)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 494,568</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Overstated disability benefit costs

For the audit period, the city overstated disability benefit costs by \$356,643. The overstated costs occurred because the city claimed unallowable costs totaling \$593,216, and underclaimed costs totaling \$236,573.

Unallowable Costs Claimed

The city claimed unsupported costs, non-mandate-related costs, and duplicate costs. In many cases, the unsupported costs were costs that did not reconcile to the city's payment system, referred to as LINX. The duplicate costs occurred because the city claimed the same costs in two fiscal years, claimed travel expenses as both medical costs and travel costs, and claimed multiple-year cumulative costs rather than costs applicable to a single fiscal year. The city claimed the same costs in two fiscal years because the city's contracted administrator did not use a consistent methodology to identify reimbursable costs. The contractor's employees identified some costs by the date service was provided and others by the payment date. In some cases, these dates occurred in different fiscal years, causing the city to claim associated costs twice.

Underclaimed Costs

For the audit period, the city erroneously excluded reimbursable costs totaling \$236,573. City representatives were unable to explain why the city excluded the reimbursable costs from its mandated cost claims. We allowed these underclaimed costs to offset unallowable costs identified during the audit.

The following table summarizes the audit adjustment.

	Fiscal Year			Total
	2000-01	2001-02	2002-03	
Disability benefit costs:				
Unallowable	\$ (12,044)	\$ (363,929)	\$ (217,243)	\$ (593,216)
Underclaimed	—	188,454	48,119	236,573
Audit adjustment	<u>\$ (12,044)</u>	<u>\$ (175,475)</u>	<u>\$ (169,124)</u>	<u>\$ (356,643)</u>

Parameters and Guidelines states, "For auditing purposes, all costs claimed must be traceable to source documents or worksheets that show evidence of and the validity of such costs."

Recommendation

We recommend that the city develop and implement an adequate recording and reporting system to ensure that all claimed costs are properly supported and reimbursable under the mandated program. Specifically, the city should ensure that:

- Costs claimed reconcile with the city's LINX payment system;
- It claims only mandate-reimbursable costs (i.e., those medical and disability costs specifically related to cancer ailments);

- It consistently identifies reimbursable costs by the payment date to avoid duplicated costs;
- It does not claim reimbursable travel costs as both travel and medical expenses;
- It claims only those costs applicable to the fiscal year, rather than cumulative costs; and
- It includes all mandate-reimbursable costs on its mandate reimbursement claims.

City's Response

The city agreed with the finding in general. The city stated that it is researching approximately \$5,000 in disallowed items that it may submit for reconsideration. The city also stated that it is taking action to correct the deficiencies identified in the audit report.

SCO's Comment

Our finding and recommendation are unchanged. The city did not submit any additional documentation with its response to the draft audit report. We will review any additional documentation submitted and revise the final audit report if it is warranted.

FINDING 2— Unallowable indirect costs

During the audit period, the city claimed unallowable indirect costs totaling \$11,696. The city erroneously applied its indirect cost rate to its contracted employees' salary and benefit costs. The city's indirect cost rate is not applicable to the contracted employees, as they are not city employees.

The following table summarizes the audit adjustment.

	Fiscal Year			Total
	2000-01	2001-02	2002-03	
Unallowable indirect costs	\$ (1,708)	\$ (5,932)	\$ (4,056)	\$ (11,696)

Parameters and Guidelines states, "For auditing purposes, all costs claimed must be traceable to source documents or worksheets that show evidence of and the validity of such costs."

Recommendation

We recommend that the city claim only those indirect costs applicable to city employees' salary and benefit costs.

City's Response

The city did not respond to this audit finding.

**OTHER ISSUE—
Amounts paid by the
state**

The city's response included comments regarding amounts paid by the state. The city's response and SCO's comment are as follows.

City's Response

The city's representative stated that the city has no record of a \$283 state payment for fiscal year (FY) 2002-03. The city also requested that the state credit future reimbursements for the \$6,876 overpayment applicable to FY 2000-01.

SCO's Comment

On September 23, 2003, the state notified the city of a \$283 payment offset applicable to the city's FY 2002-03 Firefighter's Cancer Presumption Program claim. We e-mailed a copy of the remittance advice to the city's representative on May 11, 2006.

Regarding the amount due to the state for FY 2000-01, the Legislature funds each fiscal year's costs through separate appropriations. Therefore, the FY 2000-01 overpayment cannot be used to offset other fiscal year underpayments.

**Attachment—
City's Response to
Draft Audit Report**

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COMMISSIONERS**

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ANTONIO R. VILLARAIGOSA
MAYOR

PERSONNEL DEPARTMENT

PERSONNEL BUILDING
700 EAST TEMPLE STREET
LOS ANGELES, CA 90012

Margaret M. Whelan
GENERAL MANAGER

May 1, 2006

Jeffrey V. Brownfield
Chief, Division of Audits
California State Controller
P.O. Box 942850
Sacramento, CA 94250-5874

**RESPONSE TO YOUR DRAFT AUDIT REPORT ON FIREFIGHTER'S CANCER PRESUMPTION
PROGRAM**

I am in receipt of your draft audit report dated April 2006. In response to your request for comments concerning the draft report, the following is submitted.

Although the City is in agreement with your findings in general, there are three items that we would like to address:

1. Your *Conclusion* notes that the City was reimbursed \$283 for fiscal year (FY) 2002-03. We have no record of this reimbursement.
2. Your *Conclusion* notes that the City should return \$6,876 in adjustments for FY 2000-01. Given that the audit found that the City has not yet been reimbursed for allowable costs in the amount of \$246,682 in FY 2001/02 and \$254,762 in FY 2002-03, we hereby request that the \$6,876 amount be credited to the City towards the next reimbursement.
3. The City is researching approximately \$5,000 in disallowed items that we may resubmit for your reconsideration. These items are for reimbursements in FY 2001-02 and FY 2002-03.

Additionally, I would like to note that the City is taking action to correct the deficiencies identified in your audit. We appreciate your thoroughness, as well as your fairness, in identifying under-claimed costs and including those amounts in your allowable costs.

Thank you for the opportunity to respond to the draft report. If you have any questions regarding this correspondence, please do not hesitate to contact me or Assistant General Manager Tom Coultas, at (213) 847-9746. Additionally, your staff may contact Lois Pace, Workers' Compensation Division, at (213) 473-3374.

MARGARET M. WHELAN
General Manager

C: Laura N. Chick, Controller's Office

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, California 94250-5874**

<http://www.sco.ca.gov>